

REPORT ON EXAMINATION
OF THE
MIDWEST EMPLOYERS CASUALTY COMPANY
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

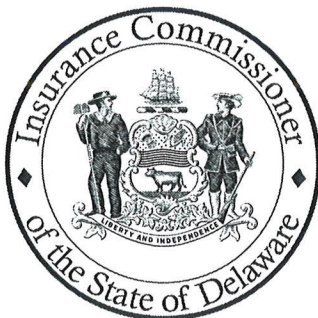
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

MIDWEST EMPLOYERS CASUALTY COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 24 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 24th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
MIDWEST EMPLOYERS CASUALTY COMPANY
AS OF
DECEMBER 31, 2009

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 24th day of June, 2011

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION..... 2

SUMMARY OF SIGNIFICANT FINDINGS 3

SUBSEQUENT EVENTS 3

COMPANY HISTORY 4

CORPORATE RECORDS 4

MANAGEMENT AND CONTROL 5

 HOLDING COMPANY SYSTEM..... 6

 AFFILIATED AGREEMENTS..... 10

TERRITORY AND PLAN OF OPERATION 13

GROWTH OF COMPANY 14

LOSS EXPERIENCE 15

REINSURANCE..... 15

ACCOUNTS AND RECORDS..... 16

FINANCIAL STATEMENTS 17

 ASSETS 18

 LIABILITIES, SURPLUS AND OTHER FUNDS 19

 SUMMARY OF OPERATIONS 20

 RECONCILIATION OF CAPITAL AND SURPLUS 21

 ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS..... 22

NOTES TO THE FINANCIAL STATEMENTS 22

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS 23

SUMMARY OF RECOMMENDATIONS 23

CONCLUSION..... 24

March 7, 2011

SALUTATION

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
NAIC
Deputy Director and Superintendent of
Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg # 69-2
Cranston, Rhode Island 02920

Honorable Sharon P. Clark,
Secretary, Southeastern Zone
Commissioner of Insurance
Kentucky Department of Insurance
P.O.Box517
Frankfort, Kentucky 40602-0517

Honorable Monica J. Lindeen
Secretary, Western Zone
Commissioner of Securities and Insurance
Montana State Auditor's Office
840 Helena Ave.
Helena, Montana 59601

Honorable Stephen W. Robertson,
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Mila Kofman
Secretary, Northeastern Zone
Superintendent of Insurance
Department of Professional Regulation and
Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.003G, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

MIDWEST EMPLOYERS CASUALTY COMPANY

hereinafter referred to as “Company” or “MECC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 103 Foulk Road, Suite 202, Wilmington, Delaware. The examination was conducted at the principal offices of the Company’s parent, Berkley Insurance Company (“BIC”) located at 475 Steamboat Road, Greenwich, Connecticut. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2006. This examination is a comprehensive risk-focused examination which covers the three (3) year period from January 1, 2007, to December 31, 2009, and encompassed a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition as of December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing material inherent risks within classified Company Key Activities, evaluating company procedures and system controls used to mitigate those risks, and conducting targeted substantive procedures on accounts and areas determined to have unmitigated risks moderate and above. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating overall financial statement presentation, management’s

compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues revealed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG, LLP (KPMG). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPANY HISTORY

The Company was incorporated on March 21, 1986, under the laws of the State of Ohio and began business on July 1, 1986.

On November 8, 1995, WRBC, the ultimate parent company, located in Greenwich, Connecticut, acquired MECC, Inc. Ownership of the Company was transferred to BIC, formerly known as Signet Star Reinsurance Company, on March 30, 2000. On July 31, 2001, the Delaware Department of Insurance approved the re-domestication of the Company to the State of Delaware.

During the period covered by this examination, gross paid-in and contributed surplus increased \$4,927,968 from \$40,403,244 in 2006 to \$45,331,212 in 2009. The increase for the period is illustrated in the following schedule.

Ending Balance as of December 31, 2006	\$40,403,244
2009: Capital Contribution from BIC	<u>4,927,968</u>
Ending Balance as of December 31, 2009	<u>\$45,331,212</u>

CORPORATE RECORDS

The recorded minutes of the shareholders, Board of Directors (Board), and certain internal committees of the Company were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board of Directors (Board). The amended bylaws state that the affairs of the Company shall be managed by its Board consisting of not less than five (5) or more than twenty-one (21) Directors. Directors are elected at the annual meeting of the stockholder and each Director serves for the term of one (1) year until the next annual election and until their successors are elected and qualified.

The Board serving as of December 31, 2009, was as follows:

<u>Name</u>	<u>Principal Occupation</u>
William Robert Berkley	Chairman of the Board and CEO, WRBC
Eugene George Ballard	Senior VP and Chief Financial Officer, WRBC
Robert Daly Stone	Senior Vice President – Alternative Market Operations, WRBC
Steven Joseph Link	Executive Vice President, MECC
Melodee Jane Saunders	President and Chief Operating Officer, MECC
Ira Seth Lederman	Senior VP, General Counsel and Secretary, WRBC

The Company's principal officers and their respective titles as of December 31, 2009, were as follows:

Name	Title
Melodee Jane Saunders	President and COO
Steven Joseph Link	Executive Vice President
Donna Lee Knowling	Senior Vice President

Peter William Shaw	CFO and Treasurer
James Daniel Asahl	Vice President
Robert Hyrum Burgoyne II	Vice President
Edward David Campbell	Assistant Vice President
Clairmonte Oliver Cappelle	Vice President
Linda Marie Howell	Vice President
Janna Sue Peters	Assistant Vice President
Thomas Dale Vonderheid	Vice President

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919 “Change in Officer and Director Notice”.

HOLDING COMPANY SYSTEM

The Company is a member of the WRBC insurance holding company system. WRBC operates in five segments of the property and casualty insurance business: specialty insurance, regional property and casualty insurance, alternative markets, reinsurance and international. As of December 31, 2009, the Company is a wholly owned subsidiary of Signet Star Holdings, a Delaware Holding Company. The ultimate parent is WRBC.

WRBC is a United States property and casualty insurance and insurance services holding company with operations throughout the U.S., as well as South America, Australia, Hong Kong, the United Kingdom and Continental Europe. WRBC is publicly traded on the New York Stock Exchange as “WRB”. As of December 31, 2009, WRBC reported assets of \$17.3 billion and stockholders’ equity of \$3.6 billion on a GAAP basis, held in excess of 160 separate legal entities.

An organizational chart listing the Holding Company System in which the Company is a member as of December 31, 2009, is as follows:

W.R. Berkley Corporation

All American Agency Facilities, Inc.

Berkley Dean & Company, Inc.

Berkley Capital Investors, LP

Berkley Capital, LLC

Berkley Holdings Corp. Two

Berkley Holdings, LLC

Berkley Insurance Services, LLC

Berkley International, LLC

Berkley International Holdings, LLC

Berkley International Latinoamerica S. A.

Berkley International Aseguradora de Riesgos del Trabajo S. A.

Berkley International do Brasil Seguros S. A.

Berkley International Seguros, S. A. (99.6% Ownership)

Berkley International Seguros, S. A. (Uruguay)

Cotasy Corporation S. A.

Independencia Compania de Seguros de Vida, S. A.

BI China, Limited

Magaverse, Limited

Masterclass, Limited

Global Direct, LLC

Steamboat Advisory Services, Limited

Berkley Offshore Underwriting Managers UK, Limited

Berkley Life and Health Insurance Company

Berkley London Holdings, Inc.

W. R. Berkley London Finance, Limited

W. R. Berkley London Holdings, Limited

W. R. Berkley Insurance (Europe), Limited

W. R. Berkley London Staff, Limited

Greenwich Knight Insurance Company

Greenwich AeroGroup, Inc.

Atlantic Aero Holdings, Inc.

Atlantic Aero, Inc.

Alamo Aerospace, LP

Mid-Atlantic Freight, Inc.

MartinAire Aviation LLC

Mid-Atlantic Freight GenPar, LLC

Banner Aerospace, Inc.

GCCUS, Inc.

DAC International, Inc.

Matrix Aviation, Inc.

NASAM Incorporated (formerly known as Banner Acquisition Corp. II)

Professional Aircraft Accessories, Inc.

Professional Aviation Associates, Inc.

Summit Aviation, Inc.

Western Acquisition Corp.

Midwest Employers Casualty Company

Western Aircraft, Inc.

J/I Holding Corporation

Admiral Insurance Company

Admiral Indemnity Company

Admiral Risk Insurance Services, Inc.

Armada Insurance Services, Inc.

Carolina Casualty Insurance Company

Berkley Specialty Insurance Services, LLC

Admiral Insurance Group, LLC

Berkley Professional Liability, LLC

Berkley Select, LLC (formerly known as Select Specialty Managers, LLC)

Berkley Specialty Underwriting Managers, LLC

Carolina Casualty Insurance Group, LLC

Clermont Specialty Managers, Ltd.

Monitor Liability Managers, LLC (formerly known as Monitor Liability Managers, Inc.)

Nautilus Insurance Group, LLC

Southwest International Underwriting Managers, Inc.

Vela Insurance Services, LLC (formerly known as Vela Insurance Services, Inc.)

Clermont Insurance Company

Jersey International Brokerage Corporation

Nautilus Insurance Company

Great Divide Insurance Company

Commodore Re Management Corporation

East Isles Reinsurance, Ltd.

Northwest International Underwriting Manager, Inc.

MADA Reciprocal Services, Inc.

Peyton Street Independent Financial Services Corporation (6)

Insurbanc

Queen's Island Insurance Company, Ltd.

Signet Star Holdings, Inc.

Berkley Insurance Company

Berkley Canada Inc. (formerly known as Berkley Underwriting Managers Canada, Ltd.)

Berkley Regional Insurance Company

Acadia Insurance Company

Maine Compensation Services, Inc

Berkley Regional Insurance Services, LLC

Acadia Insurance Group, LLC

American Mining Insurance Group, LLC

Berkley Mid-Atlantic Group, LLC

Berkley North Pacific Group, LLC

Berkley Regional Specialty, LLC

Berkley Surety Group, LLC (formerly known as Berkley Surety Group, Inc.)

Continental Western Group, LLC

Regional Excess Underwriters, LLC

Union Standard Insurance Group, LLC

Berkley Regional Specialty Insurance Company

CGH Insurance Group, Inc.

American Mining Claims Service, Inc.

CGH Claims Service, Inc.

American Mining Insurance Company, Inc.

Midwest Employers Casualty Company

Deck Software, Inc.
Mining Insurance Markets, Inc.
Continental Western Insurance Company
Firemen's Insurance Company of Washington, D.C.
Tri-State Insurance Company of Minnesota
Union Insurance Company
Union Standard Insurance Company
Union Standard Management Company, Inc
Gemini Insurance Company
Key Risk Insurance Company
Midwest Employers Casualty Company
 Berkley Alternative Markets Insurance Services, LLC
 Berkley Medical Excess Underwriters, LLC
 Berkley Administrators of Connecticut, Inc
 Berkley Risk Administrators Company, LLC
 All Claims of Nevada, Inc.
 Berkley Risk Administrators of Texas, Inc.
 Berkley Risk Services of Vermont, Inc.
 Garnet Captive Services, LLC
 Independent Plan Administrators, LLC
 Rasmussen Agency, Inc.
 Key Care, LLC
 Key Risk Management Services, LLC (formerly Key Risk Management Services, Inc.)
 Key Risk Underwriting Managers, LLC (formerly Key Risk Underwriting Managers, Inc.)
 Midwest Employers Casualty Group, LLC
 Midwest Employers Services, LLC
 Preferred Employers Group, LLC
 Select Marketing Insurance Services, LLC.
 Riverport Insurance Services, LLC
 Preferred Employers Insurance Company
Riverport Insurance Company
Reinserco, Inc
 Merrill Management Corporation
StarNet Insurance Company
 Starnet Insurance Services, LLC
 Berkley Accident and Health, LLC
 Berkley Asset Protection Underwriters, LLC
 Berkley Aviation, LLC
 Berkley Facultative Reinsurance Services, LLC
 Berkley Life Sciences, LLC
 Berkley Net Underwriters, LLC
 Berkley Offshore Underwriting Managers, LLC
 Berkley Oil & Gas Specialty Services, LLC
 Berkley Risk Solutions, LLC (formerly known as Berkley Risk Solutions, Inc.)
 Berkley Technology Services LLC
 Berkley Underwriting Partners, LLC
 B F Re Underwriters, LLC
 Facultative ReSources, Inc.
 FinSecure, LLC
 Lenpex, LLC

Midwest Employers Casualty Company

Signet Star Re, LLC
Watch Hill Fac Management, LLC
Surety-Pro Services, Inc.
WR Berkley Syndicate Holdings, Ltd (formerly known as WRBC (SH), Limited)
WRBC Corporate Member, Ltd
WR Berkley Syndicate, Ltd (formerly known as WRBC (ST), Limited)

Steamboat Asset Management, LLC

WRBC Transportation, Inc.

Interlaken Capital Aviation Holdings, Inc.
Interlaken Capital Aviation Services, Inc.

W. R. Berkley Capital Trust

W. R. Berkley Capital Trust II

W. R. Berkley Capital Trust III

MANAGEMENT CONTRACT AND/OR LENDING RELATIONSHIP (NON-OWNED)

MADA Insurance Exchange
Union Standard Lloyds
States Self-Insurers Trust
States Self Insurers Risk Retention Group
W. R. Berkley Syndicate 1967

A review of the Insurance Holding Company Annual Registration Statement filings (*Form B* and *Form C*) made by the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Administrative Code 1801.

AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its affiliates at December 31, 2009.

Tax Allocation Agreement

Effective November 8, 1995, MECC and WRBC entered into a tax allocation agreement whereby the Company is a member of an affiliated group of corporations of which WRBC,

directly or indirectly, is the common parent that files consolidated federal income tax returns for the participating member companies.

The tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the WRBC Group. Estimated payments are made by the respective affiliates to WRBC and if such member is entitled to a credit, WRBC will account for such amount in the same way as if a credit or a claim for a refund was made directly by an affiliate with the Internal Revenue Service.

Investment Advisory Agreement

Effective November 9, 1995, MECC entered into an investment advisory agreement with Berkley Dean and Company, Inc. (Berkley Dean) whereby Berkley Dean will provide certain advisory and management services based upon criteria, standards and guidelines of the Company. MECC has ultimate and final authority over decisions and policies on purchases and sales of securities. Berkley Dean receives 0.25% of 1% of the first \$10,000,000 and 0.20% of 1% thereafter, of the net asset value of the portfolio at the end of each quarter which is when fee payments are due. The agreement may be terminated at any time by either party with at least ninety (90) days written notice prior to each anniversary of the agreement.

Underwriting Management Agreements

Effective January 1, 2005 and last amended January 1, 2006, MECC entered into an agreement with Berkley Specialty Underwriting Managers, LLC (BSUM) to act as a manager for producing, underwriting and servicing, on the Company's behalf, commercial property and casualty lines of business including fire, allied lines, commercial multiple peril, commercial inland marine, commercial general liability, commercial auto and coverage for miscellaneous

services and classes in the State of California. The Company compensates its manager for the actual costs of services provided to the Company by the manager. Services performed by BSUM are subject to the guidelines of the Company and include such functions as the following:

- Acceptance and declination of risks
- Cancellation and amendment of contracts of insurance
- Collection and payment of premiums and return premiums
- Rejection, adjustment, compromise and payment of loss and loss expenses
- Recovery of losses and expenses from its reinsurers, if any
- Payment of all applicable taxes and fees imposed by any government or agency other than premium taxes
- Payment of all dues and all other expenses connected with the business written

Settlement of payments by the manager to the Company shall be no more than thirty (30) days, upon receipt of premium. Settlement of payments by the Company to the manager shall be within thirty (30) days or receipt of the statement of account, unless the parties agree otherwise. The statement of account shall be forwarded by the manager to the Company on a calendar quarterly basis in such form and detail as mutually agreed, but not later than thirty (30) days after the close of each quarter. Business produced under this agreement in 2009 was immaterial.

Claim Service Agreements

As of December 31, 2009, the Company had several agreements in effect with various affiliates covering the servicing of workers compensation claims, which were reviewed in prior examinations. No additional claims service agreements were executed during the current examination period.

Management and Administration Agreements

Effective January 1, 2008, the Company entered into a Management and Administrative agreement with Midwest Employers Casualty Group LLC (MECG). In 2008, most of the

employees of the Company were transferred to MCEG and effective January 1, 2009, 100% of the Company's employees were transferred. Certain information technology services are provided by Berkley Technology Services, LLC (BTS), on a fee for service basis.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact the business of insurance in all fifty (50) states and the District of Columbia. The principal office facilities of the Company are located in Chesterfield, Missouri.

The Company specializes in writing excess workers' compensation and employers' liability coverages on a specific and aggregate basis to qualified self-insured employers. MECC also offers excess reinsurance to qualified insurance companies and captives, who have similar qualities as the targeted individual and group self-insured accounts. MECC also writes large deductible workers' compensation coverage for targeted individual clients in situations where this product offers a better alternative to a self-insured arrangement. On a limited basis, MECC offers related surety coverage in the form of a self-insured bond to the governing workers' compensation authority in the insured's domiciliary state. Business is marketed to individual self-insureds and self-insured groups, principally targeting school districts, municipal governments, health care providers, retailers and light manufacturing. MECC's aggregate policy is usually written on a combined basis with a specific retention.

The Company's direct business is developed through approximately four-hundred-forty (440) independent agencies and the Company also utilizes approximately fifty (50) brokers who are wholesalers that place business for retail agents. The Company assumed \$62,962,000 from non-affiliates and affiliates for excess workers compensation business.

The Company plans to continue to focus on its core product line, excess workers compensation, serving Individual Self-Insurance, Group Self-Insurance and reinsurers that cede business.

GROWTH OF COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the three-year period from its last examination as of December 31, 2006, through this examination, December 31, 2009:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 26,609,448	\$ 337,103,891	\$ 138,135,090	\$ 12,508,848
2008	28,288,038	326,472,431	124,946,175	5,055,625
2007	32,479,103	326,072,294	128,962,007	10,839,157
2006	40,968,105	298,751,782	120,896,965	3,127,571

The changes over the examination period are as follows:

- A 35% decrease in Net Written Premiums
- A 12.8% increase in Net Admitted Assets
- A 14.3% increase in Surplus as Regards Policyholders
- A 299.9% Increase in Net Income

MECC participates in a 90% quota share reinsurance agreement with its parent BIC on a retroactive basis, whereby MECC cedes 90% of its net liabilities under policies, contracts and binders of insurance or reinsurance. The decrease in net written premiums is attributable to the current soft market conditions the company is facing. Increases in net income were due to improved loss ratios and lower underwriting expenses. The improved loss ratios were the result

of cumulative adjustments relating to the change in the discount rate approved by the Delaware Department of Insurance.

LOSS EXPERIENCE

Net loss and expenses unpaid reserves as of December 31, 2008, were \$133.9 million. During 2009, \$9.9 million was paid for incurred loss and loss adjustment expense attributable to insured events of prior years. Reserves remaining for prior years are \$122.9 million as of December 31, 2009, and are the result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has been a \$1.1 million unfavorable prior year development since 2008. The increase is generally the result of ongoing analysis of loss development trends.

REINSURANCE

For 2009, the Company reported the following distribution of premiums written:

Direct business	\$ 218,973,771
Reinsurance assumed affiliates	599,426
Reinsurance assumed non-affiliates	<u>\$ 62,363,925</u>
Gross premiums written	281,937,122
Reinsurance ceded affiliates	239,479,513
Reinsurance ceded non-affiliates	<u>15,848,161</u>
Total ceded	<u>\$ 255,327,674</u>
Net premiums written	<u>\$ 26,609,448</u>

Assumed

The Company accepts specific excess Workers' Compensation cessions from various non-affiliated insurers, and one affiliate, Key Risk Insurance Company.

Ceded

Effective April 1, 2000, the Company entered into a 100% quota share reinsurance agreement with its parent BIC under which the Company ceded 100% of the net liabilities arising under the policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date and classified as property casualty insurance business by the Company. Effective January 1, 2006, the agreement was amended retroactively decreasing the reinsurance percentage to 90% quota share. This agreement represents the material portion of the reinsurance program.

Additionally the Company is a participant under the group's catastrophic loss protection covers.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information.

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure.

The independent certified public accounting firm, KPMG audited the Company's records for the years ended 2007, 2008 and 2009 and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company IT operations.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2009, along with supporting exhibits as detailed below.

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Analysis of Financial Statement Changes resulting from Examination

ASSETS**DECEMBER 31, 2009**

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	NOTES
Bonds	\$ 197,791,453		\$ 197,791,453	1
Preferred Stocks	3,994,730		3,994,730	
Common Stocks	51,139,800		51,139,800	
Cash	5,371,036		5,371,036	
Other Invested Assets	23,776,487	\$ 8,480,168	15,296,319	
Receivables for Securities	2,543,060	0	2,543,060	
Investment income due and accrued	2,327,821	0	2,327,821	
Premiums and Considerations:				
Uncollected premiums and agents balances	11,115,833	391,956	10,723,877	
Deferred premium	34,416,048	49,057	34,366,991	
Reinsurance:				
Amounts recoverable from reinsurers	1,286,728	0	1,286,728	
Net deferred tax asset	15,034,232	11,090,388	3,943,844	
Guaranty funds receivable or on deposit	2,841,034	-	2,841,034	
Electronic data processing equipment and software	350,331	58,661	291,670	
Furniture and equipment, including health care delivery assets	331,394	331,394	-	
Receivable from Parent, subsidiaries and affiliates	835,102	-	835,102	
Aggregate write-ins other assets	4,350,426		4,350,426	
Total Assets	\$ 357,505,515	\$ 20,401,624	\$ 337,103,891	

LIABILITIES, SURPLUS AND OTHER FUNDS**DECEMBER 31, 2009**

		NOTES
Losses	\$ 138,014,455	2
Reinsurance payable on paid losses and LAE	0	
Loss adjustment expenses	2,928,115	2
Commissions payable, contingent commissions and similar charges	1,704,283	
Other expenses	3,066,388	
Taxes, licenses and fees due and accrued	4,002,204	
Current federal and foreign income taxes	1,387,321	
Unearned premiums	9,525,223	
Advanced premium	178,921	
Ceded reinsurance premiums payable	11,365,037	
Funds held by company under reinsurance treaties	5,243,813	
Amounts withheld or retained by company for account of others	11,448,657	
Remittances and items not allocated	466,960	
Provision for reinsurance	3,192,000	
Payable to parent, subsidiaries and affiliates	2,762,845	
Payable for securities	20	
Aggregate write-ins for liabilities	<u>3,682,559</u>	
Total Liabilities	<u>\$ 198,968,801</u>	
Common capital stock	\$ 3,531,000	
Gross paid in and contributed surplus	45,331,212	
Unassigned funds (surplus)	<u>89,272,878</u>	
Surplus as regards policyholders	<u>\$ 138,135,090</u>	
Total liabilities, surplus and other funds	<u>\$ 337,103,891</u>	

SUMMARY OF OPERATIONS**DECEMBER 31, 2009****Underwriting Income**

Premiums earned	\$ 26,212,492
Deductions	
Losses incurred	\$ 16,967,150
Loss adjustment expenses incurred	1,041,703
Other underwriting expenses incurred	<u>6,369,310</u>
Total underwriting deductions	<u>\$ 24,378,163</u>
Net underwriting gain or (loss)	<u>\$ 1,834,329</u>

Investment Income

Net investment income earned	\$ 13,203,856
Net realized capital gains or (losses)	<u>888,928</u>
Net investment gain or (loss)	<u>\$ 14,092,784</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (18,038)
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	<u>2,962</u>
Total other income (loss)	<u>\$ (15,076)</u>
Net income after dividends to policyholders, but before federal income taxes	\$ 15,912,037
Federal income taxes incurred	<u>3,403,189</u>
Net income	<u><u>\$ 12,508,848</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

FROM DECEMBER 31, 2006 to DECEMBER 31, 2009

Capital and Surplus Account

Capital and Surplus, December 31, 2006	<u>\$ 120,896,965</u>
Net Income	\$ 28,403,630
Change in net unrealized capital gains	26,299,619
Change in net deferred income tax	11,544,656
Change in non-admitted assets and related items	(14,094,617)
Change in provision for reinsurance	(2,362,616)
Surplus Adjustment Paid In	4,927,968
Dividends to stockholder	<u>(37,480,515)</u>
Change in surplus as regards policyholders for the period	<u>\$ 17,238,125</u>
Capital and Surplus, December 31, 2009	<u><u>\$ 138,135,090</u></u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

There were no financial adjustments to the Company's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Bonds **\$197,791,453**

100% of the Company's bonds and mortgage-backed securities (MBS) are rated as Class 1 or Class 2 by the NAIC. The Company does not have any direct investments in subprime mortgage loans, direct investments in securities with underlying subprime mortgage exposure, or equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage exposure.

(Note 2) Losses **\$138,014,455**
Loss Adjustment Expenses **\$ 2,928,115**

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and loss adjustment expenses (LAE). The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined gross and net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent

events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2009.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with all prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

There were no examination findings or recommendations.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	December 31, 2009		December 31, 2006	Changes
	<u>Examination</u>	<u>Examination</u>	<u>Examination</u>	<u>Increases/</u> <u>Decreases</u>
Assets	\$337,103,891	\$337,103,891	\$298,751,782	\$38,352,109
Liabilities	198,968,801	198,968,801	177,854,817	21,113,984
Policyholders Surplus	138,135,090	138,135,090	120,896,965	17,238,125

The assistance of Delaware’s consulting actuarial firm, INS Consultants, Inc., and INS Services, Inc. is acknowledged.

Respectfully submitted,



Douglas E. Bey, CFE
 Examiner In-Charge
 State of Delaware